STATEMENT BY
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HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON OILSEEDS AND RICE
May 13, 1980

Mr. Chairman, I appreciate this opportunity to present the Administration's views on H.R. 7142, a bill to eliminate any cross compliance requirements as a condition of eligibility for loans and purchases in the case of 1979 crop soybeans.

The Administration opposes enactment of this bill.

H.R. 7142 would eliminate any cross compliance requirement as a condition of eligibility for loans and purchases of soybeans for the 1979 crop only. Soybean producers who had not complied with the set-aside provisions under the wheat and feed grain support programs for 1979 crops would, therefore, become eligible for loans on 1979 crop soybeans.

The cross compliance requirement in effect for all CCC price support programs was established to prevent the payments of benefits under one program as a direct result of producers not comploying with the provisions of another program. Without such a requirements, not only would the incentive to participate in programs with set-aside provisions be reduced, but producers would be actively discouraged from participating in order to increase benefits under another program. This is particularly true when a set-aside provision is in effect for a substitute commodity.

Eliminating the cross compliance requirement for 1979 crop soybeans would undermine the integrity of the program, decrease the incentive for producers to participate in CCC programs in the future and provide the erroneous impression that the cross compliance feature is not an important and integral part of CCC commodity support programs. Furthermore, such an action would not be equitable to those producers who did comply with cross compliance requirements.

Enactment of H.R. 7142 would be expected to increase loan activity in FY 1980 by an estimated 55 million bushels and increase FY 1980 outlays by $180 million. Net outlays in FY 1981 would be reduced by an equivalent amount as the additional loans on 1979 crop soybeans were repaid. Thus, total outlays over the two-year period would remain the same.

With regard to a related matter, the full committee last week voted to report H.R. 7121 to amend Section 201(e) of the Agricultural Act of 1949, as amended, to require that the price of 1980 and 1981 crops of soybeans be support through loans and purchases at not less than $5.02 per bushel.

The Administration opposes enactment of that bill as well.

Under current legislation, the Secretary has the authority to increase the soybean loan rate as appropriate in view of the loan rates of other commodities, market conditions and levels necessary to maintain United States' overseas markets. We believe the existing flexibility to establish soybean support levels based on domestic and international market conditions is essential.

The Congress currently has under consideration various proposals that would affect loan prices for grain. We do not know what the outcome will be. They may very well lead to a basis for an adjustment in the loan price for soybeans and for other commodities as well.

Each individual commodity support level must be considered within the context of other commodity loan rates as well as domestic and international market conditions. Reducing the flexibility to adjust the support level for any given commodity could result in an imbalance in price support levels and unintended shifts in incentives so that production decisions would be made in response to government programs rather than market forces. As a result, we would not support this proposal to reduce the Secretary's discretion with regard to the soybean loan levels.

These concerns are related. The need to maintain appropriate cross-compliance rules, and the need to establish our price support loan levels within the framework of all our feed grain and oilseed programs is essential to our policy to minimize government involvement in farmers' decision-making.

This administration's agricultural policy depends on a system of programs designed to let the forces of supply and demand establish incentives for shifts in acreage used to grow crops. The farmer-owned reserve is our main policy mechanism for dealing with the production swings that result from good and bad weather. The other programs--commodity loan programs, voluntary acreage set-aside and land diversion programs--are additional tools to help bring supply into better balance with use in such cases and to provide price and income protection against extremely good weather and economic disasters. These are important protections, but year-in, year-out, increasingly it will be the farmer-owned reserve that helps balance the supplies available to the market with demand at prices that cover farmer costs and permit them to realize profits.

In an important sense, soybean production has been our most dynamic agricultural sector. In 1970, we harvested 26.7 million acres of soybeans compared to 57.4 million acres of corn. Last year, we harvested 70.5 million acres of soybeans and 71 million acres of corn. In 1970, we exported 434 million bushels of soybeans. By 1979/80 that number has increased almost 90 percent to an estimated 815 million bushels. During the 1973-79 period, soybean exports averaged 621 million bushels annually and we had export controls in three of those seven years.

The quantity of oilseed produced in 1979 was in excess of current season market requirements, oilseed prices have declined, and a reserve stock will remain at the end of this season. U.S. producers have indicated that they intend to plant nearly as many acres to soybeans this year, and costs of producing soybeans are rising rapidly.

The soybean industry has an effective market development program, and world oilseed requirements continue to climb at a relatively rapid rate. It is, therefore, in my view, essential that the United States be able to be a reliable supplier in world markets.

We are committed to present for public comment this Spring a proposal for a farmer-owned reserve for soybeans. This will be a controversial proposal, I know. Some soybean producers oppose such a program, but I have been told by others that they support the idea. The purpose of this call for comment is to give us a chance to thoroughly evaluate the pros and cons of the proposal.

We now think our free stocks of soybeans at the end of 1979/80 will be about 400 million bushels. This is a relatively high level compared to previous years' levels, but it is not excessive when compared to annual utilization. Based upon domestic and foreign use during the 1979/80 season, 400 million bushels represents a 10-week supply. Pipeline requirements must be around 200 million. Yet, the extra 200 million bushels has depressed the season average farm price by 8 to 9 percent from the 1978/79 average. With production costs rising sharply, current product prices are failing to cover costs for a growing share of our soybean producers.

Thank you. I will be glad to answer questions.

USDA 1015-80